

Message Text

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PAGE 01 ROME 01651 01 OF 02 051735Z

47

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LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 01651

FOR DEFENSE, TREASURY (PASS FISCAL SERVICE COX),
PARIS RFC FOR LERCHBAUM

E.O. 11652: N/A

TAGS: EFIN, MILI, IT

SUBJ: PROPOSED NEW PROCEDURE FOR PURCHASING LIRE FOR USG
EXPENDITURES AND ACCOMMODATION EXCHANGE IN ITALY

REF (A) ROME 8084 OF AUGUST 9, 1973

(B) STATE 176284 OF SEPTEMBER 5, 1973

(C) ROME 278 OF JANUARY 8, 1974

1. SUMMARY: MISSION REQUESTS ADDITIONAL GUIDANCE ON
PROCEDURES FOR PURCHASING LIRE FOR USG EXPENDITURES IN
ITALY, OWING TO RECENT EXCHANGE MARKET DEVELOPMENTS AND
TO PRELIMINARY REPLY FROM BANK OF ITALY (BOI) TO US
PROPOSAL OUTLINED IN REFS A AND B. BOI HAS NOTIFIED
MISSION ON INFORMAL BASIS OF BANK AND GOVERNMENT'S
ACCEPTANCE OF US PROPOSAL WITH CERTAIN RESERVATIONS
WHICH WOULD MAKE IT NECESSARY TO BRING REPEATED SHIP-
MENTS OF DOLLAR BANKNOTES INTO ITALY ON REGULAR BASIS.
MISSION WOULD LIKE CONFIRMATION THAT REQUIREMENT ON ORDER
OF \$4 MILLION EVERY TWO WEEKS COULD BE SUPPLIED PARTLY BY
NY FED AND PARTLY FROM US MILITARY SOURCES IN GERMANY.
NEED TO ESTABLISH REGULAR AND UNIFORM LIRA PURCHASE
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PAGE 02 ROME 01651 01 OF 02 051735Z

PROCEDURE HAS BECOME URGENT DUE TO RECENT INCREASE IN

SPREAD BETWEEN AVAILABLE LEGAL RATES IN ITALY (COMMERCIAL AND BANKNOTE VERSION OF FINANCIAL LIRA RATE) AND PARALLEL INSIDE AND OUTSIDE ITALY.
END SUMMARY.

2. BANK OF ITALY HAS INFORMALLY ADVISED TREASURY ATTACHE IN WRITING THAT GOI (FOREIGN AFFAIRS, TREASURY AND FOREIGN TRADE MINISTRIES) ACCEPTS PRINCIPLE OF LIRA PURCHASE SCHEME UNDER WHICH USG WOULD SELL DOLLAR CURRENCY TO BOI IN EXCHANGE FOR LIRE AT BANKNOTE VERSION OF FINANCIAL LIRA RATE. HOWEVER, ITALIAN AUTHORITIES WOULD LIMIT TO 10 AMOUNT OF DOLLAR CURRENCY WHICH COULD BE REPURCHASED BY USG FROM BOI FOR RE-USE UNDER "CLOSED CYCLE" SCHEME IN PARA 1(B) OF REF B. (GOI RELUCTANCE TO PERMIT RECYCLING OF MORE THAN 10 PER CENT OF DOLLAR CURRENCY SOLD TO IT REFLECTS CONCERN ABOUT POSSIBLE OUTSIDE CRITICISM OF LEGALITY AND EQUITY OF ITS AGREEMENT WITH USG. FOR EXAMPLE, POSSIBILITY OF RECYCLING DOLLARS IS NOT EXPLICITLY PROVIDED FOR IN ITALIAN EXCHANGE CONTROLS WHICH ASSUME THAT BULK OF FOREIGN BANKNOTES WILL BE RETURNED TO COUNTRY OF ISSUE. ALSO, GOI FEARS CRITICISM FOR PERMITTING USG TO HAVE ACCESS TO FINANCIAL RATE WHEN ITALIAN EMIGRANTS, FOR EXAMPLE, DO NOT. AGREEMENT TO RECYCLE 10 PER CENT OF DOLLARS MAY NOT SEEM LOGICAL, BUT IT DOES REPRESENT SOME CONCESSION ON PART OF GOI.)

3. ARMY CENTRAL FINANCE AND ACCOUNTING OFFICE IN HEIDELBERG HAS INFORMED US THAT LESS THAN HALF OUR REQUIREMENTS FOR DOLLAR CURRENCY (E.E., ABOUT \$2 MILLION EVERY TWO WEEKS) COULD BE MET THROUGH COLLECTION OF US BANKNOTES IN GERMANY. THEREFORE, WE WOULD HAVE TO SUPPLEMENT THIS SOURCE BY DIRECT IMPORTS OF US CURRENCY FROM NEW YORK FED. WE RECOGNIZE PROBLEM OF RISK OF LOSS FOR LARGE SHIPMENTS OF US CURRENCY, BUT WE CALCULATE AMOUNT OF ANNUAL SAVINGS AT ABOUT \$6.3 MILLION (DIFFERENCE BETWEEN CURRENT SPREAD OF 41 LIRE PER DOLLAR BETWEEN BANKNOTE AND COMMERCIAL RATES APPLIED TO ABOUT \$100 MILLION IN ANNUAL DOLLAR/LIRA CONVERSIONS). FINALLY, WE UNDERSTAND THAT SHIPMENTS OF DOLLAR CURRENCY LIMITED OFFICIAL USE

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PAGE 03 ROME 01651 01 OF 02 051735Z

RENCY ON EQUIVALENT SCALE TAKE PLACE IN OTHER PARTS OF WORLD (E.G. THE PACIFIC).

4. RECENT INCREASES IN SPREADS BETWEEN LEGAL RATES (COMMERCIAL AND FINANCIAL) AND PARALLEL MARKET RATES (BLACK MARKET IN ITALY AND OPEN MARKET IN SWITZERLAND), ALONG WITH GROWTH OF BLACK MARKET IN ITALY, HAVE INCREASED INCENTIVE FOR SHOPPING FOR BEST AVAILABLE RATE.

FOR EXAMPLE ON AUGUST 9, 1973, WHEN REF A WAS SENT,
SPREAD BETWEEN COMMERCIAL RATE AND BANKNOTE RATE WAS
16 LIRE. THAT SPREAD HAS WIDENED TO 41 LIRE AS OF
FEBRUARY 4, 1974, AT SAME TIME, SPREAD BETWEEN BLACK
MARKET RATE AND BANKNOTE RATE WAS 93 LIRE PER DOLLAR
ON FEBRUARY 4.

5. DURING PRESENT INTERIM PERIOD WHILE WE ARE NEGOTIATING
NEW SYSTEM. MISSION HAS URGED USG AGENCIES TO SEEK
BEST AVAILABLE LEGAL EXCHANGE RATE FOR OFFICIAL TRANS-
ACTIONS AND ACCOMMODATION EXCHANGE UNDER PRESENT REGIME
OF MULTIPLE EXCHANGE RATES. HOWEVER, HIGH EXCHANGE
RATES WHICH ARE AVAILABLE FROM SOME EXCHANGE DEALERS IN
ITALY INDICATE CLEARLY THAT SOME OF OUR DOLLARS ARE
ENDING UP IN BLACK MARKET CHANNELS. EXCHANGE DEALERS
FROM WHOM USG AGENCIES AND PERSONNEL HAVE PURCHASED LIRA
ARE AUTHORIZED TO DEAL IN FOREIGN CURRENCY, BUT SOME
OF THEM ARE EVIDENTLY NOT ABIDING BY RELEVANT EXCHANGE
CONTROL REGULATIONS.

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PAGE 01 ROME 01651 02 OF 02 051524Z

47

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TO SECSTATE WASHDC PRIORITY 3098

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LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 1651

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6. WE ARE ALSO AWARE THAT SOME OF MILITARY DISBURSING
OFFICERS IN ITALY ARE ENGAGED IN PURCHASING LIRE IN
OPEN MARKET IN SWITZERLAND FOR DELIVERY OF LIRE IN ITALY

IN ORDER TO TAKE ADVANTAGE OF HIGHER SWISS RATE.
BECAUSE OF HIGH RATE OFFERED FOR PURCHASING SUCH LIRA
CURRENCY, WE ARE CERTAIN THAT ORIGIN OF CURRENCY IS ILLEGAL
SHIPMENT FROM ITALY. WHILE IT IS POSSIBLE FOR A NON-RESIDENT
TO LEGALLY IMPORT LIRA CURRENCY, PROOF THAT SUCH CURRENCY
PROPERLY BELONGED ABROAD MUST BE GIVEN AND SPECIAL CUSTOMS
FORM FILLED OUT.

7. WE REALIZE THAT ENFORCEMENT OF ITALIAN EXCHANGE CONTROL
REGULATIONS IS NOT OUR BUSINESS, BUT WE BELIEVE THAT USG
AGENCIES AND USG PERSONNEL SHOULD ABIDE BY ITALIAN REGULA-
TIONS IN ITALY AND SHOULD BEHAVE IN MANNER CONSISTENT WITH
BROAD USG OBJECTIVES. IN CONTEXT OF COMPLEX ITALIAN FOREIGN
EXCHANGE SYSTEM, IT IS OF UTMOST IMPORTANCE TO REGULARIZE
LIRA PURCHASE PROCEDURE AND TO GIVE CLEARER INTERPRETIVE
GUIDANCE TO USG AGENCIES AND EMPLOYEES AS TO WHICH CURRENCY
OPERATIONS ARE LEGAL AND ACCEPTABLE UNDER ITALIAN LAW AND
UNDER USG REGULATIONS CONCERNING CURRENCY TRANSACTIONS FOR
ITS EMPLOYEES OVERSEAS. ALSO, WE WOULD SPELL OUT THE
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PAGE 02 ROME 01651 02 OF 02 051524Z

CONSEQUENCES OF NON-COMPLIANCE WITH THESE RULES. IN FACT,
WE HAVE ALREADY GIVEN SOME SUCH GUIDANCE TO USG AGENCIES, I.E.,
THAT USG AGENCIES CANNOT LEGALLY USE DOLLAR CHECK TO PURCHASE
LIRE AT FINANCIAL RATE IN ITALY (SEE REFTEL C), BUT WE HAVE
NOT YET INSTRUCTED THEM NOT TO PURCHASE LIRA CURRENCY AT
OPEN MARKET RATE IN SWITZERLAND.

8. IN ADDITION TO QUESTIONS OF LEGALITY AND GOOD USG-
GOI RELATIONS, CONTINUED PURCHASE OF LIRE OUTSIDE
ITALY COULD RESULT IN FURTHER COMPLICATIONS FOR CURRENT
MILITARY BURDEN-SHARING EXERCISE. FOR EXAMPLE, TO EXTENT
THAT USG AGENCIES OR PERSONNEL BUY LIRE IN SWITZERLAND,
GOI LOSES THIS SOURCE OF FOREIGN CURRENCY INCOME FROM
US MILITARY EXPENDITURES IN ITALY. THIS LOSS WOULD
CLEARLY SHOW UP IN BOI BALANCE OF PAYMENTS STATISTICS.
IN SUCH CASE, GOI COULD ARGUE THAT THERE WERE REDUCED
NEED FOR ITALY TO PARTICIPATE IN PRESENT BURDEN-SHARING
EXERCISE REQUIRED BY JACKSON-NUNN AMENDMENT.

9. CONCLUSION. PREFERRED MISSION SOLUTION TO LIRA
PURCHASE PROBLEM IS TO PROCEED IMMEDIATELY WITH SCHEME
TO USE DOLLAR CURRENCY (EITHER RECYCLED OR REGULARLY
IMPORTED) TO PURCHASE LIRE AT FOREIGN BANKNOTE RATE.
WE WOULD STILL SEEK EVENTUAL RELAXATION FROM ITALIAN
AUTHORITIES OF 10 PERCENT LIMITATION IMPOSED ON RECYCLING
OF DOLLAR BANKNOTES. WE WOULD PROPOSE TO GOI THAT, IF AT ANY
TIME DOLLAR CURRENCY WERE NOT AVAILABLE IN SUFFICIENT QUANTITY,
OR IF COMMERCIAL LIRA RATE BECAME MORE FAVORABLE THAN
BANKNOTE RATE, WE COULD PURCHASE LIRE AT COMMERCIAL RATE.

(BOI SEEMS RECEPTIVE TO THIS IDEA.)

10. AT SAME TIME, NEED FOR DOLLAR CURRENCY FOR USE WITHIN MILITARY BASES AND LONG MILITARY TRADITION OF PAYING INDIVIDUALS IN DOLLAR CURRENCY INDICATES THAT IT WILL NOT BE POSSIBLE TO PROHIBIT INDIVIDUALS FROM HAVING ACCESS TO DOLLAR CURRENCY OR TO PREVENT THEM COMPLETELY FROM CONVERTING DOLLARS INTO LIRE OUTSIDE OUR PROPOSED SYSTEM. (ACCORDING TO UNIFORM STATE/USIA REGULATIONS 4FAM363, SALES OF US CURRENCY TO EMBASSY AND CONSULATE PERSONNEL ARE PROHIBITED EXCEPT FOR TRAVEL OUTSIDE COUNTRY OR FOR CASH PURCHASES AT US GOVERNMENT-AUTHORIZED FACILITIES LIMITED OFFICIAL USE

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PAGE 03 ROME 01651 02 OF 02 051524Z

SUCH AS COMMISSARIES, SNACK BARS, THEATRES, ETC. IN PRACTICE, THIS PLACE USG CIVILIAN PERSONNEL WHO ARE SUBJECT TO THESE RULES AT DISADVANTAGE, WHENEVER DAILY MARKET RATE FOR FOREIGN BANKNOTES WOULD BE HIGHER THAN TEN-DAY AVERAGE BANKNOTE RATE AND SO LONG AS EVEN MORE FAVORABLE RATES CAN BE OBTAINED FOR US CURRENCY IN ITALIAN BLACK MARKET OR IN SWISS OPEN MARKET.) UNDER NEW SYSTEM WE WOULD, OF COURSE, GIVE ADDITIONAL GUIDANCE TO ALL INDIVIDUAL USG PERSONNEL PER PARA 7 ABOVE.

1. ACTION REQUESTED: BEFORE WE GIVE OUR REACTION TO ITALIAN RESPONSE TO OUR BANKNOTE PROPOSAL, MISSION WOULD LIKE TO KNOW WHETHER US BANKNOTES CAN BE MADE AVAILABLE FROM US OR OTHER GEOGRAPHIC SOURCES IN VOLUME REQUIRED. IF SO, WE URGE PROMPT ESTABLISHMENT OF PROCEDURES OUTLINED IN REFTEL B TO PUT PROPOSED BANKNOTE PROCEDURE INTO EFFECT. WE CONTEMPLATE FORMAL EXCHANGE OF LETTERS WITH GOI AS SOON AS AUTHORIZATION RECEIVED. RESOLUTION OF PROBLEM IS URGENT IN VIEW OF INCREASING FLUCTUATIONS IN EXCHANGE RATES AND OF NEED TO REGULARIZE AND UNIFY LIRA PURCHASE ARRANGEMENTS. VOLPE

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